

# **MUNICIPAL FACILITIES REVOLVING LOAN FUND DEPARTMENT OF ENVIRONMENTAL QUALITY STATE OF LOUISIANA ANNUAL REPORT FOR STATE FISCAL YEAR 2009**

## **INTRODUCTION**

The Louisiana Department of Environmental Quality (LDEQ) is a department within the Executive Branch of Government for the State of Louisiana. In compliance with the Environmental Protection Agency (EPA) rules and regulations and federal grant requirements, LDEQ submits the State Revolving Loan Fund Annual Report for the State's fiscal year ending June 30, 2009 (FY09). This report describes how the State of Louisiana has met the goals and objectives identified in its Intended Use Plan (IUP) and grant agreement.

The Financial Services Division and the Municipal Facilities Engineering Section within LDEQ are responsible for the operations of the Municipal Facilities Revolving Loan Fund (MFRLF) Program in the State of Louisiana. These groups within LDEQ provide assistance to municipalities in the development, financing and implementation of wastewater treatment management plans and plants. Engineering oversight, design review, inspection services, and environmental assessment services are provided by the Municipal Facilities Engineering Section. Grant management, program administration and financial services are provided by the Financial Services Division. All efforts are directed toward improving water quality by assisting communities in providing wastewater treatment processes that meet established effluent limits and achieve the goals of the Clean Water Act.

## **EXECUTIVE SUMMARY**

The MFRLF has been awarded 19 federal grants from EPA. These grants are available through the EPA's Automated Clearing House Payment System (ACH) and the Automated Standard Application for Payments (ASAP). These grants are authorized by Title VI of the Clean Water Act, as amended in 1987 and require matching funds from the state. As of June 30, 2009, EPA has awarded grants totaling \$297,581,423 to the state of Louisiana. This award includes \$15,000 of in kind dollars that was awarded in 2004 for the purchase of the Project Manager software from Northbridge Environmental. Through the reporting period, \$267,660,135 has been drawn for loans and administrative expenses. The state has provided matching funds totaling \$57,076,806. (Note 7)

The State of Louisiana has provided its required state match on estimated Federal grant awards with Direct State General Fund appropriations, Capital Outlay appropriations, tobacco settlement funds, and bond proceeds. The State has deposited a total of \$57,076,806 in State Match into the fund.

Under the terms of the grants, four percent (4%) of the federal award is allowed to fund the administrative costs of operating the Program. At June 30, 2009, a total of \$11,903,261 has been allocated from the grant and a balance of \$350,192 (note 8) in unexpended 4% funds was available for program administration. Also, an administrative fee of 0.5% is assessed on all outstanding loan balances. These fees are collected and held outside the MFRLF to administer the program. MFRLF operates as a direct loan program where Federal and State monies are lent directly to municipalities.

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### GOAL STATEMENTS

#### A. Long Term Goals

The MFRLF continues to maintain long-term goals to ensure it assists the State in meeting water quality goals and ensure the long-range integrity of the fund.

**Goal 1: To achieve statewide compliance with Federal and State water quality standards by providing financial assistance to municipalities and other qualified recipients.**

LDEQ strives to make communities across the state aware that the MFRLF program is available and can provide financial assistance to them in maintaining compliance with the Clean Water Act. LDEQ also works with Rural Utilities, Community Block Grants, and the Governor's Office of Rural Development, jointly funding projects throughout the state.

LDEQ participates in the Louisiana Waste Water Joint Funding Committee (LWWJFC) meetings, which is a joint effort between the Community Block Grants, US Department of Agriculture, Louisiana Department of Health and Hospitals, and LDEQ. The mission of the LWWJFC is to assist applicants in securing financing for water and wastewater projects. This is accomplished by all agencies participating in a review of the project information, and then providing applicants with information as to which funding programs could provide assistance for their projects. The LDEQ advise the applicants of where a particular project meets eligibility requirements and introduces potential applicants to all funding agencies. The LWWJFC meets monthly to review intent to file applications for waste water projects in Louisiana. These projects include those applying for both grant and loan dollars. LDEQ is able to contact all communities and inform them how we can assist them with their projects.

In SFY 2009, the LWWJFC met 12 times (monthly) and reviewed a total of 258 applications. Of those applications, 250 were for requests for funding from LDEQ. In addition to those projects requesting funding from LDEQ, we contacted 3 communities with information regarding our funding as a direct result of these meetings. The number of applications received and reviewed in FY09 was unusually large. This was due to LDEQ marketing for American Recovery and Reinvestment Act (ARRA) projects. LDEQ did not make any direct offers of financing to these communities. Most of the applications reviewed by the LWWJFC were funded with ARRA and traditional SRF funds. We believe that working in unison with the other loan programs will offer further promotion of our program which may result in future loans.

**Goal 2: To promote expanded eligibility under Title VI of the Clean Water Act that allows financial assistance for additional project categories. These additional project categories include non-point sources, reconstruction of facilities, facilities needed to accommodate population growth, estuary, and groundwater-related needs.**

LDEQ has adopted a comprehensive outreach approach by maintaining close communications with mayors, parish/police jury presidents, state representatives and senators, consulting engineers as well as the Louisiana Municipal Association and the Louisiana Policy Jury Association. In frontloading meetings with over 300 potential borrowers, LDEQ has promoted the expanded eligibility of the Program. LDEQ also continues to promote the wetland assimilation process as a means of eliminating discharges to waterways and enhancing and improving wetlands through study funding. In FY 2009, LDEQ received 20 pre-applications for non-traditional projects. These include:

- A project to reuse treated wastewater at a paper manufacturing facility, which will significantly reduce the drawdown of the Sparta Aquifer;
- A non-point source project for reforestation of a coastal area damaged by a hurricane;
- Several water conservation projects that include the installation of new or more efficient water meters.

**Goal 3: To maintain the fiscal integrity of the Fund and to assure its continuous enhancements in perpetuity through maintaining net assets equal to federal capitalization grants and state matching funds and the use of a cash flow modeling plan.**

The MFRLF prepares and maintains its accounting records on the full accrual basis with accounting principles generally accepted in the United States as applied to governmental units. The Office of the Legislative Auditor of the State of Louisiana performs an annual audit on the MFRLF in accordance with Governmental Auditing Standards.

Also, a cash flow model is used to predict revenues and expenses over time allowing better management of program assets helping ensure perpetuity of the fund.

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### B. Short Term Goals

The Department will pursue the following short-term goals in an effort to continually improve the MFRLF program.

**Goal 1: Communicate the availability of the MFRLF Program by LDEQ personnel at conferences or conventions during the year. We plan on presenting program information at two (2) conferences and conventions during the year. The Department will be sending at least two representatives to operate a booth at the conferences and conventions and providing marketing materials such as brochures and promotional items. The representatives will be available to present information about our program and obtain contacts for future meetings with potential borrowers. The target audience of these conferences and conventions will be local municipalities and local police juries' with publically owned waste water treatment facilities. Additionally, LDEQ staff will be visiting every municipality to discuss their respective needs.**

The LDEQ had representatives from engineering and financial services participate in the annual conferences for the Louisiana Police Jury Association meeting on March 19-21, 2009 in New Orleans, LA, Louisiana Municipal Association on August 9, 2008 in Lafayette, LA, Environmental Regulatory Compliance Conference on January 14-15, 2009 in Alexandria, LA and the Louisiana Conference on Water Supply, Sewerage, and Industrial Waste on March 9-13, 2009 in Lake Charles, LA, by displaying a booth to promote the SRF to local communities. The LDEQ Secretary attended these conferences as a speaker where he presented loan opportunities for municipalities.

**Goal 2: Municipal Facilities Engineering Section plans on preparing and mailing information about DEQ's MFRLF program to all permitted publically owned treatment facilities. Included with this letter will be advertising materials such as magnets, rulers, note pads, etc.**

LDEQ staff met with every one of the 304 municipality and 64 parish governments in Louisiana during the year. Each of these local governments was provided a personal explanation of the MFRLF program and informational brochures. Pens and notepads with contact information were also given out at each meeting. Informative letters were also mailed to all municipalities, parishes and state legislators in Louisiana, explaining MFRLF opportunities through both ARRA and base funding.

**Goal 3:       The Department commits to meeting with all communities in the state of Louisiana. The meetings primarily serve as an introduction to LDEQ services which will include providing information about the MFRLF. From these meetings, follow-up meetings with LDEQ MFRLF representatives will be scheduled for those communities that express interest in our program.**

Those local governments that had needs for wastewater system improvements, and/or expressed an interest in the MFRLF program received a follow-up meeting with a member of the MFRLF staff. These meetings included a discussion of wastewater needs and a detailed explanation of the application process. A packet containing pre-application materials and information on program requirements was provided. Interested local governments submitted pre-applications and are listed on the Priority List.

**Goal 4:       Municipality Facilities Engineering Section commits meeting with at least 8 potential new loan recipients to discuss the benefits of the MFRLF to their communities in terms of financial savings and compliance with federal and state water quality standards.**

LDEQ staff met with 18 potential new borrowers, 15 of which were a direct result of the department's meetings with the communities (see Short-Term Goal 3).

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**Goal 5:**        **Participate in the newly formed Louisiana Waste Water Joint Funding Committee (LWWJFC) meetings with a joint effort between the Community Block Grants, US Department of Agriculture, Louisiana Department of Health and Hospitals and LDEQ. The mission of the LWWJFC is to assist applicants in securing financing for water and wastewater projects. This is accomplished by all agencies participating in a review of the project information and then providing applicants with information as to which funding programs that could provide assistance for their projects. We advise the applicants of where a particular project meets eligibility requirements and to open the doors of potential applicants with all funding agencies. The LWWJFC will meet periodically in the year to review intent to file applications for waste water projects in Louisiana. These projects will include those applying for both grant and loan dollars. LDEQ will be able to respond to all communities how we can assist with their projects.**

LDEQ strives to make communities across the state aware that the MFRLF program can provide a means of financial assistance to them in maintaining compliance with the Clean Water Act. LDEQ also works with Rural Utilities, Community Block Grants, and the Governor's Office of Rural Development, jointly funding projects throughout the state.

LDEQ participates in the Louisiana Waste Water Joint Funding Committee (LWWJFC) meetings, which is a joint effort between the Community Block Grants, US Department of Agriculture, Louisiana Department of Health and Hospitals, and LDEQ. The mission of the LWWJFC is to assist applicants in securing financing for water and wastewater projects. This is accomplished by all agencies participating in a review of the project information. We then provide applicants with information as to which funding programs could provide assistance for their projects. We advise the applicants of where a particular project meets eligibility requirements and introduce potential applicants to all funding agencies. The LWWJFC meets on a monthly basis, 12 times per year, to review intent to file applications for waste-water and drinking water projects in Louisiana. These projects include those applying for both grant and loan dollars. LDEQ will be able to respond to all communities how we can assist with their projects. See Long-term Goal 1 for further information. In SFY 2009, the LWWJFC met 12 times (monthly) and reviewed a total of 258 applications. Of those applications, 250 were for requests for funding from LDEQ.

**Goal 6:**        **The Department is currently working with Region 6 to obtain approval for extended term financing. We anticipate being able to offer up to 30 year financing for disadvantaged communities by July 2009.**

LDEQ intends to amend its proposal in FY10 to address this goal. Implementing this goal was delayed due to ARRA and state legislative requirements.

**Goal 7: The Department anticipates applying for the FY 2008 Capitalization Grant in SFY 2009.**

LDEQ applied for the FY08 Capitalization Grant on July 8, 2008. These funds were awarded on September 16, 2008.

**DETAILS OF ACCOMPLISHMENTS**

**A. Fund Financial Status**

1. Loans Awarded - The State of Louisiana finalized one loan totaling \$14,000,000 in FY09 to the City of Monroe.
2. Binding Commitments - The LDEQ had no binding commitments in FY09.
3. Sources of Funds - A total of \$3,548,922 (Note 7) in grant revenues was drawn and made available to the State during FY09. This revenue was drawn from Grant # CS- 220002-05 and CS-220002-06. The remaining grant balance for FY09 is \$29,921,288 (note 7). Other funds available in FY09 were \$12,123,942 from principal repayments (exhibit 2), \$2,438,649 interest earned on cash in state treasury and \$7,397,293 interest on outstanding loan balances.
4. Expenses and Bonds issued – The MFRLF incurred administrative expenses of \$728,795 in FY09. (Note 8)

**B. Assistance Activity**

Exhibits 1 through 3 illustrate the assistance level and financial activity of the MFRLF for FY09. These exhibits reflect changes to the IUP for communities that are actively involved in the formal loan application process.

Exhibit 1A shows projects that the MFRLF has funded, or will fund using MFRLF monies. Exhibit 1B provides data on the State's binding commitment requirements. Exhibit 2 shows principal collections from borrowers during FY09, and finally exhibit 3 shows disbursements made during FY09 to loan projects for design and construction.

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### C. Provision of the Operating Agreement / Conditions of the Grant

The State of Louisiana agreed to several conditions in the Operating or Grant Agreements. The following conditions have been met and are self-explanatory:

1. Agreement to Accept Payments
2. State Laws and Procedures
3. Use of the ACH and ASAP
4. Annual Audit
5. Annual Report
6. Annual Review

The following conditions are described more fully below:

1. Provide a State Match

Nineteen grants totaling \$297,581,423 have been awarded to the State of Louisiana. The State of Louisiana has provided the required state match on estimated federal grant awards with direct cash appropriations from the State General Fund, Capital Outlay Appropriations, and Tobacco Settlement Revenues, and a Line of Credit (LOC) from bond proceeds. A total of \$26,753,586 in State matching funds has been made available to the Fund from these sources (Note 7).

In FY95, Louisiana received EPA approval to issue up to \$15,000,000 in state match revenue bonds secured by revenues of the Fund. This state match financing arrangement was similar to a letter of credit in that bond funds were available to be drawn as needed. Bond funds are immediately deposited into the SRF fund when drawn. In FY02 the state set up bonds of up to \$12,000,000 that were issued as state match. Another bond agreement in the amount of 10,000,000 was made in FY07, of which \$4,000,000 were issued during FY07. As of June 30, 2009, \$30,323,220 in net proceeds from these bond issues was deposited into the fund as state match. No liability exists for these bonds at June 30, 2009.

The State has deposited sufficient cash into the Fund to meet its proportionate share prior to accessing grant monies made available through the Federal ACH. The cumulative amount deposited into the Fund for State Match is \$57,076,806. The MFRLF is in the process of securing more matching funds through the issuance of additional revenue bonds in FY10.



2. Binding Commitments within One Year

The state had required commitments of \$4,738,320 for the third and fourth federal quarters of 2008 and \$11,548,440 for the first federal quarter of 2009. The state had no binding commitments. Although the State did not meet its binding commitment requirements during this reporting period, the cumulative commitments are \$560,580,532. The cumulative commitments requirements are \$357,097,708. The result is an excess of \$203,482,824 of actual binding commitments over required binding commitments. Exhibit 1B provides information on binding commitment activity.

3. Timely and Expeditious Expenditures

The State of Louisiana disbursed all cash draws and other available MFRLF funds in a timely and expeditious manner. The LDEQ is monitoring projects to ensure timely initiation of operations in accordance with the established schedules.

4. First Use of Funds for Enforceable Requirements

The first use requirements have been met. All National Municipal Projects in Louisiana are in categories identified in 40 CFR 35.3135(e) (3). In the event that any of the National Municipal Projects are no longer in compliance, and the equivalency requirements have not been met for all capitalization grants, then such projects shall be offered assistance through the MFRLF process before other projects.

5. Compliance with Title II Requirements

All projects in the Exhibit 1A followed by an asterisk meet equivalency requirements. Since the inception of the program twenty-one loans totaling \$79,998,000 were funded as equivalency projects that meet the Title II requirements. All Title II requirements have been met, and Title II is no longer applicable. The last Title II equivalency project was funded June 1995.

6. MBE/WBE Requirements

LDEQ monitors all loan recipients for compliance with MBE/WBE fair share efforts. The Municipal Facilities Engineering Section reviews all construction contracts prior to award to insure compliance with the six affirmative action steps and requires that contractors furnish the Department with a copy of all MBE/WBE subcontracts.

This requirement is emphasized to the loan recipients in pre-construction conference and also in the instructions for processing pay requests. MBE/WBE's usually represent small businesses that are sub-contracted to perform smaller jobs. In FY09 a lack of sub-agreements for construction services from larger contractors resulted in no percentages of MBE/WBE's being utilized, and therefore compliance with the goals of the fair share efforts were not achieved.

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### 7. Other Federal Authorities

The State of Louisiana and all recipients of MFRLF funds are required to comply with applicable Federal authorities and regulations. Completed loan agreements include these federal assurances.

### 8. State Environmental Review Process (SERP)

The State of Louisiana conducts environmental reviews in accordance with the SERP on all projects submitted for funding. There were two environmental reviews finalized in FY09. Those two projects were the City of Oakdale and the Town of Vinton.

### 9. Cash Draw and Disbursement Schedule/Commitment

Generally, loan disbursements are made by drawing Federal funds into the MFRLF before the payment is made to the local municipality. Administrative costs are paid by the State and then recovered after the administrative charges are totaled for a particular month. At the end of a fiscal year, some administrative money may be owed to the State and some pending loan disbursements may have been drawn for the Federal funds but not passed on to the local communities. At the end of FY09 \$50,636 was due from the Federal ACH because of these timing differences.

### 10. Accounting and Auditing Procedures

The State of Louisiana requires the LDEQ to utilize the Integrated Statewide Information System (ISIS), a comprehensive financial management system. ISIS has been designed to meet the common accounting, management, and informational needs of all departments and branches of Louisiana State Government, including the central fiscal control agencies. ISIS provides accounting, reporting, procedures, forms, cash and budgetary control over all financial transactions including the financial operations of the MFRLF loan program and other federal programs.

Beginning in FY06, LDEQ began implementing the Project Manager software which tracks all aspects of the MFRLF. Project Manager also provides numerous financial and tracking reports, as well as billing and forecasting functions.

All financial transactions including accounting, fiscal and audit procedures conform to accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. For the fiscal year ending June 30, 2009, LDEQ has contracted with the Office of the Legislative Auditor in the State of Louisiana to have a financial and compliance audit conducted on its MFRLF Program. A report with an opinion on the financial statements, a report on internal controls, and a report on compliance with the Title VI of the Clean Water Act will be available subsequent to the end of the fiscal year.

10. Accounting and Auditing Procedures, *continued*

Loan recipients are required to maintain adequate financial records in accordance with accounting principles generally accepted in the United States, and to make these records available to LDEQ and EPA. Annually, or biannually for small communities, as required by State law, recipients must cause an audit of their books and accounts to be made by an independent firm of certified public accountants. In accordance with OMB Circular A-133, if a municipality expends \$500,000 or more in a single fiscal year in Federal awards, the municipality should have a single audit conducted as part of their annual financial statements. These audited financial statements are then submitted to LDEQ. LDEQ maintains a list of municipalities required to report under A-133. LDEQ insures that all municipalities required to prepare a single audit, have done so. As required by each assistant agreement, municipalities are required to submit copies of their financial statements to LDEQ until the loan is paid in full.

**PROGRAM CHANGES**A. Comparison with the Intended Use Plan

The Annual Report reflects any changes from the FY09 IUP. Changes are due to delays by cities in submission of required project information necessary to receive MFRLF funding for loans, changes in required legal resolutions, or because communities withdrew from active pursuit of State MFRLF funding.

Five projects were identified for funding in the FY09 IUP. One loan, City of Monroe #5, had a binding commitment and closed in FY09. Thirty-four projects may close in FY10. Four of those are ARRA projects that were not fully funded by ARRA (Delhi, Oakdale, Winnsboro and West Monroe). The following is a list of the thirty anticipated new projects that have been included in the FY10 UIP:

Alexandria	Port Allen 1
Baton Rouge	Shreveport
Bossier City	Slidell
Broussard	St. Bernard Parish Control Panels
Donaldsonville	St. Bernard Parish Line Rehab
Gretna	St. Charles Parish Luling
Ida	St. Francisville
Kenner	St. Tammany Parish Plan & Eng.
Livonia	Walker Force Main
Logansport	Walker New Force Main
Morgan City	Walker UV
New Orleans Sewer & Water Board	West Baton Rouge Parish
New Roads	West Feliciana
Pineville	Westwego
Plaquemine	Zachary

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### B. Interest Rate

The LDEQ introduced a variable interest rate based on the Baa bond rate, plus a .5% administrative fee during FY05, which was in place until October 11, 2006. The rate increased annually on the loan until it reached 3.95%, 3.45% interest plus .5% administrative fee. For example, the Baton Rouge loan which closed on 11/5/2004 had a combined interest rate of 2.85% through 3/31/05, 3.11% through 3/31/06, 3.37% through 3/31/07, 3.63% through 3/31/08, 3.89% through 3/31/09, and 3.95% thereafter. The savings realized by the customer depends on the amount of the loan as well the timing of the draws. The first loan awarded under this plan was New Iberia on September 28, 2004 with an initial interest rate of 2.04%.

The Secretary of the Department changed the variable interest rate into a fixed interest rate of 2.95% on October 11, 2006. The interest rate on all loans closed beginning that date are stated on the loan documents as 2.45% interest plus a .50% administrative fee charged only on loan monies drawn.

In an effort to increase borrowing of the Louisiana MFRLF, the Louisiana Department of Environmental Quality (LDEQ) reduced its current interest rate from 2.95% to 0.95%, which is a 0.45% interest rate plus a 0.50% administrative fee, charged only on loan monies drawn. The new interest rate on loans made by the MFRLF for water quality improvement projects may be adjusted in accordance with the current market rate and availability of funds. This proactive decision by the Secretary of LDEQ, allows the department to accomplish our mission statement which is the protection of the environment, job creation, and economic development. LDEQ has committed to 38 projects totaling over \$200,000,000 at this reduced rate. This information has been incorporated into LDEQ's FY10 IUP.

## PROPOSED IMPROVEMENTS

LDEQ has submitted to EPA Region 6 guidelines and procedures for offering extended financing to help make projects affordable to communities that could not afford to repay a loan in twenty years. The proposal is currently being modified to meet the requirements of EPA Headquarters. The proposed financing may benefit some small municipalities as well as areas affected by Hurricanes Katrina, Rita and Gustav. We have experienced a delay in finalizing this financing option due to ARRA and legislative requirements of offering this option.

The MFRLF staff is also in contact with the LDEQ Waste Permits Division to determine where communities are planning sewer plants for possible new projects.